

Message Text

UNCLASSIFIED

PAGE 01 LONDON 11463 01 OF 04 221826Z

44

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 SSO-00

NSCE-00 USIE-00 INRE-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04

SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00

PM-04 H-02 L-03 PA-02 PRS-01 /122 W

----- 107905

O R 221818Z JUL 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 3893

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 04 LONDON 11463

DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 11463 01 OF 04 221826Z

E.O. 11652: N/A

TAGS: ECON, UK, EFIN, EAD

SUBJECT: CHANCELLOR ANNOUNCES BILLION POUND REDUCTION IN
EXPENDITURE AND SIZEABLE REDUCTION IN BORROWING
REQUIREMENT IN FY 77/78

SUMMARY: CAPPING A WEEK OF ACRIMONIOUS DEBATE AND HARD
SELL, THE CHANCELLOR OF THE EXCHEQUER ANNOUNCED THAT
1.012 BILLION POUNDS (1976 SURVEY PRICES) WOULD BE CUT
FROM PLANNED PUBLIC EXPENDITURE IN THE 1977/78 FISCAL
YEAR. THIS, TOGETHER WITH A PAYROLL TAX INCREASE' WOULD
REDUCE THE PUBLIC SECTOR BORROWING REQUIREMENT FOR FY
1977/78 TO 9.0 BILLION POUNDS. HEALEY TOLD THE COMMONS
THAT A MONEY SUPPLY (M3) GROWTH SHOULD AMOUNT TO ABOUT
12 PERCENT DURING THE CURRENT FISCAL YEAR. REACTION TO
THE CUTS WAS PREDICTABLE, RANGING FROM EXASPERATION ON
THE LABOR LEFT TO A GENERAL WELCOME AMONG THE TORIES. IN
A MOVE TO DEMONSTRATE HMG'S COMMITMENT TO INDUSTRIAL RE-
GENERATION AND EMPLOYMENT, HE SAID THAT UNEMPLOYED SCHOOL
LEAVERS WOULD RECEIVE ASSISTANCE IN OBTAINING EMPLOYMENT
WHILE A SERIES OF MEASURES RANGING FROM A FURTHER RELAXA-
TION IN THE PRICE CODE TO ADDED FUNDS FOR THE NATIONAL EN-
TERPRISE BOARD WOULD BE TAKEN TO STIMULATE INVESTMENT. ON
THE FOREIGN EXCHANGE MARKETS, STERLING FELL AS INITIAL
REACTION AMONG DEALERS REFLECTED THE UNCERTAINTY AS TO
WHETHER THE CUTS, TAX INCREASE AND MENTION OF AN EXPLICIT
MONEY SUPPLY FIGURE WOULD BE ENOUGH TO EASE THE EXPECTED
STRAIN ON AVAILABLE RESOURCES AS THE UK RECOVERY SPEEDS UP
LATE THIS YEAR AND IN EARLY 1977. END SUMMARY

1. IN HIS STATEMENT TO THE PARLIAMENT, THE CHANCELLOR
MADE THE FOLLOWING POINTS CONCERNING THE U.K. ECONOMIC
SITUATION AND PROSPECTS:

1. EXPECTS GDP TO INCREASE OVER THE 18 MONTHS FROM
THE FIRST HALF OF 1976 AT AN ANNUAL RATE OF 5 PER-
CENT.
2. EXPORTS OF GOODS AND SERVICES OVER THE SAME PER-
IOD TO INCREASE BY 11 PERCENT.
3. THE ABOVE COULD IMPLY A RATE OF INCREASE IN MANU-
FACTURING PRODUCTION PERHAPS AS MUCH AS 9 PERCENT.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 11463 01 OF 04 221826Z

4. UNEMPLOYMENT TO START FALLING BEFORE THE END OF
1976.
5. THE 12 PERCENT DEVALUATION OF STERLING WILL WORS-
EN THE BALANCE OF PAYMENTS IN THE SHORT-TERM MAKING
IT MORE NECESSARY THAN EVER TO MAINTAIN THE CONFID-
ENCE OF THOSE FROM WHOM THE UK MAY HAVE TO BORROW TO
FINANCE THE EXTERNAL DEFICIT.
6. THE INCREASE IN EXPORTS AND IMPORT SUBSTITUTION

DERIVING FROM INCREASED COMPETATIVENESS (DUE TO DE-
VALUATION) WILL LATER BRING MASSIVE IMPROVEMENT TO

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 11463 02 OF 04 221839Z

44

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 EB-07 SSO-00

NSCE-00 USIE-00 INRE-00 AID-05 CIAE-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02

L-03 PA-02 PRS-01 /122 W

----- 108152

O R 221818Z JUL 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 3894

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 02 OF 04 LONDON 11463

THE BALANCE OF PAYMENTS.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 11463 02 OF 04 221839Z

7. CASH LIMITS ALREADY ANNOUNCED WILL ENSURE THAT EXPENDITURE IN FY 76/77 IS STRICTLY CONTAINED.

8. PUBLIC SECTOR BORROWING REQUIREMENT FOR FY76/77 ESTIMATED AT 11-1/2 BILLION POUNDS; 1/2 BILLION POUNDS LESS THAN APRIL BUDGET ESTIMATE.

9. PUBLIC SECTOR BORROWING REQUIREMENT INTENDED TO BE REDUCED IN FY 77/78 TO 9 BILLION POUNDS OR LESS.

10. THE GOVERNMENT WILL ALSO WATCH VIGILANTLY THE NEED FOR ANY EXTENSION OF ITS EXISTING SELECTIVE IMPORT RESTRAINTS TO PROVIDE TEMPORARY PROTECTION TO VIABLE INDUSTRIES FACED WITH UNFAIR FOREIGN COMPETITION...ALREADY TAKEN ACTION AND ARE ANXIOUS TO DISCUSS WITH BOTH SIDES OF INDUSTRY THE NEED FOR FURTHER ACTION OF THIS KIND.

11. THE CHANCELLOR ESTIMATED THAT THE TOTAL IMPACT OF THE CUTS WOULD BE TO INCREASE THE LEVEL OF EMPLOYMENT BY 60,000 AND RAISE RETAIL PRICES BY 1 PERCENT DURING THE YEAR TO MARCH 1978.

2. DENIS HEALEY ANNOUNCED THAT CUTS TOTALLING 1.012 BILLION POUNDS (1976 SURVEY PRICES) WILL BE MADE IN PUBLIC EXPENDITURE PLANNED FOR THE FISCAL YEAR BEGINNING APRIL 1, 1977. THE CUTS ARE SUMMARIZED IN THE FOLLOWING TABLE.

1977 78: PUBLIC EXPENDITURE PROGRAMMES

POUNDS MILLIONS AT 1976 SURVEY PRICES

TOTAL FY77-78 CHANGES FY77-78

BUDGETARY EX. ANNOUNCED EXPENDITURE

PENDITURE PRIOR ON AFTER

TO ANNOUNCED 7/22/76 CUTS

CUTS

1. DEFENCE	5,644	.100	5,544
2. OVERSEAS AID AND OTHER OVERSEAS SERVICES	1,275	- 5	1,270
3. AGRICULTURE, FISH- ERIES, FOOD AND FORESTRY	851	.105	746
4. TRADE, INDUS- TRY AND EMPLOY- MENT	2'601	-105	2,496

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 11463 02 OF 04 221839Z

5. NATIONALISED IN-			
DUSTRIES CAPITAL			
EXPENDITURE	3,310	-157	3'153
6. ROADS AND			
TRANSPORT	2,487	- 87	2,400
7. HOUSING	4,435	146	4,289
8. OTHER ENVIRON-			
MENTAL SERV-			
ICES	2'467	- 81	2,386
9. LAW, ORDER AND			
PROTECTIVE			
SERVICES	1,833	0	1'833
10. EDUCATION AND LI-			
BRARIES, SCIENCE			
AND ARTS	7,362	- 30	7,332
11. HEALTH AND PER-			
SONAL SOCIAL			
SERVICES	6,608	- 70	6'538
12. SOCIAL SECU-			
RITY	11,559	- 21	11,538
13. OTHER PUBLIC			
SERVICES	835	0	835
14. COMMON SERVICES	807	- 10	797
15. NORTHERN IRELAND	1,597	- 35	1,562

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 11463 03 OF 04 221836Z

44

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 EB-07 SSO-00

NSCE-00 USIE-00 INRE-00 AID-05 CIAE-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02

L-03 PA-02 PRS-01 /122 W

----- 108207

O R 221818Z JUL 76
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 3895
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA
USDOC WASHDC

UNCLAS SECTION 03 OF 04 LONDON 11463

TOTAL PROGRAMMED
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 11463 03 OF 04 221836Z

EXPENDITURE	53'671	-952	52'719
TOTAL PROGRAMMES	53,671		52,719
CONTINGENCY RE-			
SERVE	706	706	
,OTAL	54,377	53,425	

THE CHANCELLOR EMPHASIZED THAT THE LEVEL OF UK OVERSEAS AID WOULD NOT BE REDUCED. IN ADDITION' NO CUTS WOULD BE MADE IN THE LEVEL OF TRANSFER PAYMENTS. POSITIVE ACTION WOULD BE ANNOUNCED TO REDUCE THE RECORD NUMBER OF UNEMPLOYED SCHOOL LEAVERS. SINCE TOP PRIORITY IS BEING ACCORDED TO THE REGENERATION OF BRITISH INDUSTRY, ADDITIONAL RESOURCES WOULD BE MADE AVAILABLE TO THE NATIONAL ENTERPRISE BOARD (NEB) AND THE WELSH AND SCOTTISH DEVELOPMENT AGENCIES. HE ALSO ANNOUNCED A FURTHER RELAXATION OF THE PRICE CODE REGULATIONS GOVERNING THE PERCENTAGE OF NEW INVESTMENT WHICH COULD BE USED FOR ALLOWABLE PRICE INCREASES. THIS PERCENTAGE. NOW AT 20 PERCENT' WAS TENTATIVELY INCREASED TO 35 PERCENT IN THE PROPOSED PRICE CODE REVISIONS OF LAST MONTH. THE CHANCELLOR FURTHER IN.

CREASED THE FIGURE TO 50 PERCENT.

3. PUBLIC SECTOR BORROWING REQUIREMENT.

AS A RESULT OF THE MEASURES ANNOUNCED, EXPENDITURE CUTS TOTAL 952 MILLION POUNDS. IN ADDITION TO THESE DIRECT CUTS, THE CHANCELLOR ESTIMATED THAT:

- 1: THE CUTS WOULD RESULT IN A SAVING OF 60 MILLION POUNDS ON DEBT INTEREST IN FY 77/78.
- 2: THE TOTAL PUBLIC EXPENDITURE SAVING WILL THEREFORE BE 1 012 MILLION POUNDS.
- 3: THIS WILL REDUCE THE PSBR IN FY 77/78 BY ABOUT 800 MILLION POUNDS.
- 4: IN ORDER TO REDUCE THE PSBR TO 9 BILLION POUNDS (ITEM 9 PARA. 1), FURTHER ACTION IS NEEDED IN THE TAX FIELD. HOWEVER, INCREASES IN DIRECT OR INDIRECT TAXES WOULD ADD TO INFLATION. THEREFORE, GOVERNMENT IS ADDING 2 PERCENTAGE POINTS TO EM. PLOYEES' NATIONAL INSURANCE CONTRIBUTION (READ PAYROLL TAX), EFFECTIVE APRIL 6' 1977. ... THIS WILL REDUCE THE PSBR BY 700 MILLION POUNDS IN FY 77/78.

5: A PSBR OF 9 BILLION POUNDS IN FY 77/78 WOULD BE UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 11463 03 OF 04 221836Z

ABOUT 6 PERCENT OF GDP AT CURRENT MARKET PRICES, COMPARED WITH 9 PERCENT FORECAST FOR THIS YEAR AND 10 PERCENT LAST YEAR.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 11463 04 OF 04 221837Z

44

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 EB-07 SSO-00

NSCE-00 USIE-00 INRE-00 AID-05 CIAE-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02

L-03 PA-02 PRS-01 /122 W

----- 108155

O R 221818Z JUL 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 3896

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 04 OF 04 LONDON 11463

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 11463 04 OF 04 221837Z

4. COMMENT

A) WHAT IS UNEXPECTED IN THE PACKAGE IS THE INCREASE IN THE PAYROLL TAX, THE INDICATION OF EXPECTED MONEY SUPPLY GROWTH OF 12 PERCENT IN THE CURRENT FISCAL YEAR, AND EASING OF THE PRICE CODE. THE CHANCELLOR IS THEREBY TACKLING REDUCTION OF THE PSBR BOTH THROUGH CUTTING EXPENDITURE AND INCREASING RECEIPTS. WHILE THE INCREASED EMPLOYERS' PAYROLL TAX CONTRIBUTION WILL INCREASE WAGE COSTS AND CUT PROFITS, THIS WILL BE OFFSET TO SOME EXTENT BY EASING PRICE CODE PROVISIONS.

B) THE CHANCELLOR ALSO INDICATED THAT ANY INCREASE IN BANK LENDING SHOULD BE DIRECTED TO PRIORITY BORROWING, EXPORTS' IMPORT SUBSTITUTION, INVESTMENT AND PRODUCTIVE INDUSTRY. THE GOVERNOR OF THE BANK OF ENGLAND

WILL TELL THE BANKS TO CAREFULLY MONITOR NON-PRIORITY LENDING. WHILE THIS IS A REPETITION OF EXISTING POLICY, SOME BANKERS ARE WONDERING WHAT COMES NEXT (IF ANYTHING).

C) INITIAL FOREIGN EXCHANGE MARKET SENTIMENT WAS UN-ENTHUSIASTIC, THE POUND FALLING FROM \$1.7870 TO \$1.7820; IE, 1/2 CENT DECLINE WITH MUCH OF THE SELLING PRESSURE REPORTED FROM NEW YORK. FOREIGN EXCHANGE DEALERS HERE CONSIDER THAT "FRIDAY COULD BE HAIRY," AS THE MARKETS DIGEST THE MEASURES AND THEIR IMPACT. INITIAL OFF-THE-CUFF COMMENTS INCLUDED THE WRONG THINGS WERE CUT; IE, NOT ENOUGH FROM SOCIAL SERVICES. TO A COMMENT THAT A BILLION POUNDS IN CUTS IN 1976 SURVEY PRICES ARE NOT EQUAL TO A BILLION POUNDS IN CUTS RIGHT NOW. ONE DEALER THOUGHT THE MARKET WAS PERHAPS FOCUSING TOO MUCH ON THE CUTS RATHER THAN ON THE ENTIRE PACKAGE AND THE GREATER THAN EXPECTED REDUCTION IN PSBR. NONE OF THOSE SPOKEN TO HOWEVER WAS WILLING TO GIVE A CONSIDERED JUDGMENT ON SUCH SHORT NOTICE, INDICATING IT WOULD BE NECESSARY TO WAIT AND SEE.

ARMSTRONG

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPENDITURES, CURRENCIES, TAXES, CURRENCY CONTROLS, BUDGET DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 22 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON11463
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760282-0636
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760733/aaaabcju.tel
Line Count: 460
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: hackerp0
Review Comment: n/a
Review Content Flags:
Review Date: 27 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 FEB 2004 by ThomasVJ>; APPROVED <06 JAN 2005 by hackerp0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CHANCELLOR ANNOUNCES BILLION POUND REDUCTION IN EXPENDITURE AND SIZEABLE REDUCTION IN BORROWING
TAGS: ECON, EFIN, EAID, UK
To: TRSY
STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006